

NEWSLETTER

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EU REJECTS LULA'S PLAN TO CHANGE AGREEMENT WITH MERCOSUR

Mercosur and the EU continue to work technically on the bi-regional agreement

The European Union signaled its opposition to president-elect Luiz Inácio Lula da Silva's intention to change the Mercosur-EU agreement.

On Saturday, the day before the runoff vote, Mr. Lula da Silva published an article in the Paris-based newspaper Le Monde saying that "improving the terms of the Mercosur-European Union agreement will allow us to increase our trade, deepen the bonds of trust and strengthen the defense of our common values."

In his first speech after his victory in the presidential race, on Sunday, Mr. Lula da Silva warned that he wants to "resume relations with the United States and the European Union on new bases." And that he was not interested in trade agreements that condemn Brazil to be an eternal supplier of commodities.

When asked by Valor, the EU answered Monday with a clear "no" to Mr. Lula da Silva's idea, saying that the focus should now be on working towards the implementation of the negotiated understanding.

"We believe that the agreement negotiated with Mercosur is very beneficial for both parties and will provide a framework for strengthening political and sectoral cooperation, trade and sustainable development," said Mirian Ferrer, EU's spokesperson for Trade and Agriculture.

"We look forward to engaging with the Brazilian authorities, as well as with the other Mercosur countries, to bring the ongoing process to a successful conclusion (of the agreement). We are notably seeking to strengthen our cooperation on sustainability and deforestation through an additional instrument," she added.

Mr. Lula da Silva's idea, which means eventually reopening the trade agreement, had already been cited by him during a trip to Europe before the election campaign. The president-elect suggested that Brazil should get more concessions, for example in the industrial front, and not limit itself to slight gains in agriculture, sources say.

But Brussels indicates that nothing will change. A source from the bloc reiterated that "in principle" it is unlikely to change. The Europeans are still talking about sending to Mercosur a call for an additional commitment against deforestation by the end of the year. This European document is still in the making in the European Commission, and has not yet been sent to the 27 member states, sources in Brussels say.

Reopening the Mercosur-EU agreement, after complicated negotiations over 20 years with interruptions, means continuing to delay an improvement in bilateral trade conditions for companies on both sides against a particularly tense geopolitical backdrop.

Mercosur and the EU continue to work technically on the bi-regional agreement, recently closing issues such as geographical indications. Nobody expects anything to move forward soon, not least because the president-elect's transition team will have other priorities.

In Brussels, the president of the European Commission, Ursula von der Leyen, in a recent speech to the European Parliament, failed to mention Mercosur when talking about trade agreements. She cited new updates of agreements with Mexico and Chile, but these two are not going to come out any time soon either.

People within the Bolsonaro administration believe that Brazil's private sector has not asked to reopen what has already been negotiated with Europe. And that Argentina's President Alberto Fernández, aware of the fragility of its economy, is the one willing to review the understanding.

Plus, some people in Brasília feel that the Europeans made a mistake by failing to close the agreement with Mercosur as soon as possible and to accelerate Brazil's entry into the Organization for Economic Cooperation and Development (OECD).

The prevailing assessment is that European governments, in order to satisfy some segments of the population that demanded more emphasis on the environment, have antagonized too much the relationship, especially with Brazil. As a result, European companies that want to invest more in the region do not have the advantages they could have through the bi-regional agreement, for example.

Source: Valor International
<https://valorinternational.globo.com/>

11/03/2022

VITOL JOINS ENERGY TRADING IN BRAZIL

Company received initial investment of R\$108m, will focus on large consumers

Vitol, the world's largest independent oil trading company, has launched its energy trading company in Brazil – a segment in which consumers directly negotiate their demands. The new company is called Vitol Power Brasil and aims at serving large energy consumers.

The company received an initial investment of R\$108 million, is backed by its parent company, and has already started its first operations. The potential client portfolio, in theory, may be equivalent to Vitol's own portfolio, which is not disclosed for strategic reasons. The solutions will be tailored to the client's needs, a typical approach in this sector.

The company sees great potential in the Brazilian market, said Murilo Soares, Vitol Power Brasil's chief commercial officer. According to him, this is the first step of a business platform.

The focus is on large players in the wake of ordinance 50, of 2022, published by the Ministry of Mines and Energy, which allowed consumers in the high-voltage market to buy electricity from any supplier. This is expected to increase the liquidity of the free market, which will bring more business opportunities, said Mr. Soares.

"Brazil is the largest energy market in South America, with more than 70 GW of demand and several large players. Vitol joins Brazil's power industry with a long-term vision and commitment, bringing all its trading expertise from around the world to this market," he said.

The liberalization meets the 500-kW limit defined by Law 9.427, of 1996, by allowing any high-voltage consumer, regardless of their consumption, to choose their supplier. Nearly 106,000 new consumer units will be able to join the free market.

The company knows the country's potential, as it has been operating in Brazil's oil and gas sectors for more than 20 years. The arrival of the global fuel giant will diversify its local operations, but it intends to operate mainly in the free energy market.

Brazil's power industry is expanding mainly through the free market. Some trading companies are expanding their operations by offering services to consumers and generation companies and building greenfield projects specifically for renewable sources.

But Mr. Soares, who leads the company's implementation and operation in Brazil, said this model is not Vitol's path. The Dutch multinational company intends to be an independent trading company without generation assets, at least at this first moment.

"As an energy commodity trading company, we will not have a specific focus with regard to the energy sources we will trade. However, it is important to emphasize the company's commitment to encouraging renewable sources. Vitol's renewable energy business in the United States includes more than 1 GW of solar and wind power in operation or under construction and an additional pipeline of more than 2.5 GW of projects in solar and battery storage, totaling investments of more than \$1 billion. In Brazil, we are unlikely to invest in generation assets at a first moment," he said.

The market is likely to advance in the coming years, especially with regard to credit risk, with the entry of new and large customers, according to the executive. With greater security and liquidity, he expects a favorable scenario for increasing operations and creating new products.

"In this sense, the energy trading company is the first step towards the creation of a Vitol business platform in the country. By 2023, the company projects to commercialize about 50 average megawatts and by 2025, with the consolidation of the high-voltage market, to reach 1 average gigawatt."

The focus on the wholesale market and medium and long-term contracts does not rule out retail operations. "We have already started the process to create Vitol Power Brasil's retail profile in the Electric Energy Trading Chamber (CCEE), which shows that although it is not our focus, we will be attentive to opportunities."

Currently, only consumers with a demand of more than 500kW, such as industrial companies with electricity bills over R\$150,000, can buy electricity from any supplier. The Ministry of Mines and Energy proposes expanding the possibility of choice to low-voltage consumers – including residential and commercial ones, which are in the so-called regulated power market – as of 2028.

Source: Valor International
<https://valorinternational.globo.com/>

11/07/2022

VIVO MULLS OVER ACQUISITION IN FIBER ASSETS

Opposite to the world's movements, Telefônica in Brazil plans to expand its fiber network business

The Spanish group Telefónica has been intensifying a series of sales of towers and participation in its fiber optic networks through the subsidiaries it owns in countries in Europe and Latin America. In the Brazilian market, where it controls Telefônica Brasil, owner of Vivo, the fiber business tends to go in the opposite direction. Instead of selling, the operator is willing to buy fiber assets that cross its path.

"The natural trend is to reduce network overlap, and we will see how it will be done," Christian Gebara, CEO of Telefônica Brasil, told Valor. The CEO agrees with the sector expert's forecast that the expansion of optical fiber infrastructure will reach a depletion among the largest operators. But for the executive, this is likely to happen in the short term. This means that the mergers and acquisitions that have been stirring up the more than 10,000 small internet access providers are already starting to "knock on the door" of the big players. And Telefonica is not on the selling end, warns the executive.

"Our strategy is well defined. The consolidation opportunity for us has to be very positive and cannot overlap with my network," said Mr. Gebara about possible acquisition targets. "I can't speak for other players, but I believe that some of them may be interested [in selling], because competing with Vivo, with a network of this size, with a channel and a brand with the strength that we have, with the possibility of convergence, with the whole portfolio of digital services, may not be easy."

In the global market, dominant operators first separated services from infrastructure, creating independent or neutral networks – totally isonomic – to operate wholesale. Then they attracted investors.

“Each group company has a fiber strategy, the one in Brazil is different,” explains Mr. Gebara. “If you look today at the ‘picture’ of 2024, a network of ours reaching 29 million homes, 22 million will be Vivo’s own network and the rest through a neutral network. So, much of our network will continue. Right now, the plan is for it to be 100% Vivo-owned.”

By separating its infrastructure, and creating FiBrasil, Telefônica guaranteed its presence in the fiber market on different fronts. It invests through FiBrasil, a partnership between Telefônica Brasil and Telefonica Infra, from Spain, with 25% each; and the Canadian fund CDPQ, with 50%. In addition, it invests directly with Vivo. Finally, it has a partnership with American Tower in Minas Gerais.

From the total number of homes where Telefônica has already made fiber available to be hired by providers and sell the FTTH service (fiber to the home) to consumers, 6.4 million are operations through FiBrasil and the rest through Vivo, while the agreement with American Tower includes 1 million homes.

A leader in its partnerships, Vivo determines the expansion strategy and still has an exclusivity period before the network capacity is sold to competitors. “It’s hard to see an operator like ours that has control as we do,” says Mr. Gebara, comparing its strategy not only with local rivals but also with peers in the group.

Local competition also accelerates. IHS is TIM Brasil’s partner in the neutral network company I-Systems. Oi sold control of its fiber asset, V.tal, to funds from BTG Pactual and GlobeNet Cabos Submarinos. Compared to the other incumbents Grupo Claro Brasil is the one that is the furthest behind in fiber deployment, besides not having admitted partners so far.

Selling a slice of the network was a way for the companies to raise the necessary funds for the heavy investments in the expansion of the fiber and 5G networks, as well as to reduce the high debts. In the earnings report for January to September 2022, released on Thursday, Telefônica group reported net debt of 28.9 billion euros. In Brazil, the net debt was at R\$13.5 billion, including the leasing effect.

When presenting Vivo’s group earnings reports in a teleconference for investors on Friday, the head of operations, Ángel Vilá, highlighted an “excellent set of results, growing two digits in accesses and main financial indicators.” He added: “In Brazil, our unmatched operational and financial performance has helped us strengthen our leadership position in the market.”

Source: Valor International
<https://valorinternational.globo.com/>

11/08/2022

RAÍZEN TO BUILD ADVANCED ETHANOL PLANTS AFTER AGREEMENT WITH SHELL ***Investment of R\$6bn is company’s biggest step in this segment***

Raízen unveiled Monday a R\$6 billion investment package to build five new second-generation ethanol plants over the next five years. This is the company’s biggest step in the advanced biofuels segment. The investments were made possible after an agreement with Shell to sell the product for 10 years for €3.3 billion.

The company will have nine 2G plants in operation, under construction or announced, among the 20 it promised at the time of its IPO last year. The company raised R\$6.9 billion with investors, and since the offering it has announced R\$9 billion in 2G ethanol investments.

The first unit is expected to start operating next year and will join the Piracicaba unit, which has been operating for eight years. The units announced Monday will start operating between 2025 and 2027.

All new plants will have the capacity to produce 82 million liters of 2G ethanol per year and will use sugarcane waste that is currently unused, such as straw and bagasse. The five units will deliver 3.3 billion liters of biofuel to Shell over 10 years and will also have the capacity to produce and sell to more customers.

The volumes delivered to Shell will go to foreign markets, a priority destination for Brazil's cellulosic ethanol. Unlike the domestic market, the international markets pay more for 2G ethanol because of its smaller carbon footprint compared to other biofuels and because it does not use additional agricultural lands for production.

"It doesn't compete with food, which solves the 'food-versus-fuel' equation," which is valued abroad, said Paulo Neves, Raízen's vice president of trading.

The preferred market is Europe, but other destinations are also in the sights, such as Japan and California, which offer a premium to low-carbon intensity biofuels.

Almost all the cellulosic ethanol produced today by Raízen is exported, exception for a small portion that is sold to O Boticário for a perfume line.

The contract with Shell provides security for the company to build the units because it secures the return on investment. Other companies taking the first steps in advanced biofuels have adopted the same model. One example is ECB Group, which has a green diesel project.

Once the investment is paid off, 2G ethanol will be more competitive than first-generation ethanol, made from agricultural feedstock, since its production cost is much lower because it uses residues from the field. "In first-generation ethanol, you have the land, the cost of the inputs. In 2G ethanol, after capex, there is only opex, which is lower," he said.

The company foresees an EBITDA margin of nearly 50%, with maintenance investments of R\$50 million per plant per year.

The contract foresees a minimum price for the delivery of 2G ethanol to Shell, but the effective amount will be adjusted monthly according to market prices, currently at €1,400 per cubic meter. The additional value will be "shared" between the parties.

Raízen's product will be able to meet both the demand to supply light vehicles, replacing gasoline and the production of aviation biokerosene or other uses. "We will deliver to the industrial companies that offer the best value," said Mr. Neves.

Source: Valor International
<https://valorinternational.globo.com/>

11/09/2022

OUTGOING MINISTER PLANS TO OPEN MARKETS FOR BRAZILIAN FARMERS

Marcos Montes will travel to Mexico and Dominican Republic to sign agreements that will benefit pork producers

Outgoing Agriculture Minister Marcos Montes wants to use the remaining two months in office to expand the number of markets open for Brazilian agribusiness products and get more funds for rural insurance.

Mr. Montes will travel to Mexico and the Dominican Republic to sign agreements to open those markets to Brazilian pork. The two countries are currently reliant on imports from the United States. He also mulls going to a business fair in the Middle East in December.

Other openings may materialize without trips. A mission from Indonesia will arrive in Brazil on November 19, two months after Mr. Montes's visit to Jakarta. In September, Brazilian officials discussed the expansion of exports and the opening of markets for beef, bovine genetic material, and live cattle.

Despite a canceled trip to Asia last week, there are still chances to close agreements with South Korea for beef and pork exports this year, said the minister. The agreement with Japan, a country Brazil is trying to sell pork to from areas free of foot-and-mouth disease without vaccination, such as Paraná, will still depend on further talks led by the next administration.

Since 2019, 210 markets have been opened for agribusiness products and exports reached \$122 billion between January and September this year. There is also great expectation with the conclusion of the United Kingdom's technical mission, which visited plants and analyzed the Brazilian sanitary inspection system last month.

This is Britain's first audit since the Brexit to recognize the equivalence of the agricultural defense services, which could open the doors for more beef and chicken slaughterhouses to be qualified to export there.

Although Brazilian trade with China continues to expand and the authorization given by the Chinese last week for the shipment of corn by 136 units is good news, Mr. Montes regretted that the Asians have not qualified more slaughterhouses to sell there. The latest list was approved in 2019.

"We are waiting, of course, for the opening of beef slaughterhouses. We keep talking, but it is difficult because of Covid there," he said. "Maybe with a new administration they will change a little." According to Mr. Montes, the pandemic blocked exports from plants that were already qualified. Seven slaughterhouses are still embargoed. Last week, two were authorized to resume sales. "I find it difficult to qualify any of them until the end of the year."

Another mission of the minister until December 31 is to get more funds for rural insurance, but he indicated that it is up to the elected government's negotiate the amount for 2023. He intended to get R\$2 billion for next year, compared with R\$990 million this year. "Our biggest concern is insurance. It has to be very robust."

In July, the Board of Budget Execution (JEO), an advisory body of the president for the handling of the federal fiscal policy, approved an extra amount of R\$200 million, then backtracked. Since early September, there are no extra funds for contracting subsidized policies. "The JEO lifted the R\$200 million previously approved vowing that it would release this amount until the end of the year, which would bring the budget to R\$1.1 billion. But this is not enough," he said.

The minister expects advances in the negotiations for the financing of national agriculture at the United Nations Framework Convention on Climate Change (COP27), in Egypt. Members of two secretariats of the Ministry are at the event, which started Sunday.

"COP will mix environment with hunger and food security. It will be a milestone in how the world sees sustainability. We all want to preserve the environment, but not in the way that France wanted to do, preventing Brazil from producing."

Mr. Montes said he will support legal changes to open up even more possibilities for issuing rural producer bills (CPRs). In October, the stock of these securities reached R\$204 billion. The goal is to double this number in the next four years with the new legal adjustments.

The minister also hopes to advance in a project on the traceability of production, especially beef. A working group has been created between the Ministry and the Brazilian Confederation of Agriculture (CNA).

Source: Valor International
<https://valorinternational.globo.com/>

11/11/2022

SOUTH AMERICA UNDER SPOTLIGHT IN GRAIN MARKET

Rabobank projects that production of soy in Brazil will reach 149 million tonnes in 2022/23, 21 million more than in 2021/22

The recovery of global soybean stocks will depend on a full crop in South America in 2022/23, said Marcela Marini, Rabobank's senior grain analyst in Brazil. In the 2021/22 season, drought caused losses in Brazil, Argentina, Paraguay, and Uruguay, which helped to increase prices in the international market and hurt the margins of crushers.

In an event held by the Dutch bank on Wednesday, Ms. Marini warned that La Niña is likely to continue to influence the climate in the 2022/23 cycle. According to the United States Oceanic and Atmospheric Administration (NOAA), there is an 80% chance of the phenomenon lasting until December.

“Last year the [climate] maps dried up starting in December, so we need to follow the development of the crops,” she said.

Rabobank projects a record-breaking production of soy in Brazil of 149 million tonnes in 2022/23 – 21 million more than in 2021/22 – as a result of a 4% increase in the planted area, to 43.3 million hectares, and the recovery of crop productivity.

The problems generated by the low flow on the Mississippi River may reduce the competitiveness of American soybean and open space for the Brazilian crop in the international market. The bank believes that Brazil will export 89 million tonnes next year, 13 million tonnes more than this year. The domestic crushing, in turn, may reach the historical mark of 49.5 million tonnes in 2023.

The high prices of raw materials put pressure on the margins of the industry in China, an important gauge of global demand. “We saw a reduction of 10 million tonnes in global soybean exports to China because of this,” said Ms. Marini.

For 2022/23, Chinese crushing is expected to total 93 million tonnes — the same level as in the 2020/21 cycle, and 6 million tonnes more than in 2021/22 — also boosting imports.

In the case of corn, the Rabobank analyst highlighted the fall in global exports in 2022. Besides having a reduced supply due to bad weather, the United States and Argentina ship less because of droughts in the areas of the Mississippi and Paraná rivers, respectively. Ukraine, on the other hand, has a hard time selling its products due to the war with Russia.

“With all those restrictions, we see room for Brazil to export more in this last quarter,” said Ms. Marini. The positive trend for corn shipments extends to 2023 when the country is expected to sell 45 million tonnes abroad, above the 42 million tonnes forecast by Rabobank for this year.

With strong growth in the second crop, Brazilian production in 2022/23 will be 126 million tonnes, according to the bank. “Climate models show La Niña losing strength in the first quarter of next year, which can be favorable for the second yearly crop,” said Ms. Marini.

The analyst highlighted that one of the main challenges for Brazilian grain production is internal logistics. “We see significant investments in ports, but they are not followed by investments in railroads, waterways, and so on. Freight [prices] was a limiting factor for our shipments at several times during the year.”

Another reason for the segment’s attention is the cost of production, which may go down next year. According to Rabobank’s senior analyst of inputs in Brazil, Bruno Fonseca, the amount invested to plant soybeans grew 45% this year, while corn crops faced a 25% increase. The strong appreciation of fertilizers, which gained traction with the war in Ukraine, is one of the main reasons.

“The margins are expected to continue at good levels due to the prices, but lower than last year,” he said. “We see a lot of last-minute deliveries because producers were expecting a reduction.” For 2023, he projects more attractive input prices with a recovery in global supply.

Source: Valor International
<https://valorinternational.globo.com/>

11/14/2022

FREE ENERGY MARKET DRAWS LARGE CORPORATIONS

With 90 million consumers on the radar, trend includes banks, trading firms, oil companies, and even phone carriers

The power industry is about to undergo transformations expected to change the way most Brazilians buy electricity. With the possibility of consumers freely choosing their supplier, national and international companies of varied sizes and segments are preparing strategies. They include Vitol (energy), Raízen (energy), Santander (bank), and BTG (bank).

Brazil has about 10,700 free consumers, but the rebound of the process of opening the electricity market will create potential market of 90 million consumer units and R\$400 billion per year.

The trend paves the way for new competitors, such as banks, retail traders, power generation companies, oil companies, and even phone carriers offering customized services to compete with independent firms that are pioneers in the free market.

This opening is centered on bill 414/2021, about the modernization of the electricity sector, and in the public consultations and ordinances of the Ministry of Mines and Energy. The government proposes that all high-voltage consumers will be able to choose their power supplier as of January 1, 2024.

This would be the starting point of the largest expansion of the free market since its creation in 1995. Nearly 106,000 additional consumers would have the option of joining the free trade environment.

While the regulated market is consolidated in about seven economic groups operating in monopoly fields, the free market draws new players every year, said Rodrigo Ferreira, head of the Brazilian Association of Power Trading Companies (Abraceel).

According to Mr. Ferreira, a wider opening is a matter of time, since it is one of the main requests of the electric sector, there is political will for this to happen, and global giants are already mobilizing.

"It is a market of R\$400 billion a year that grows up to 1.5% above the GDP. It is a segment with clear rules and legal security. The regulated market does not attract new players. In the free market, the agents' pulverization is large and has been attracting new national and international players to the sector every year," says the executive.

The most recent player was Vitol, one of the largest independent oil and oil products trading companies in the world, which launched its Brazilian energy trading subsidiary. The company received an initial injection of R\$108 million and the backing of the parent company.

"Brazil is the largest power market in South America, with over 70 gigawatts of demand and several large players," said Murilo Soares, chief trading officer at Vitol Power Brasil. "As an energy commodity trading company, we will not have a specific focus on the power sources we will trade."

In the context of the energy transition, oil companies combine renewable projects and emission cuts. Hydrocarbons will still be present at least until 2050, but the mixed strategy of investing in renewables in the free power market (ACL) may be a revenue prospect at this time for the competitiveness of sources and to align with the principles of the environmental, social and governance (ESG) agenda.

An example of this is TotalEnergies. The French company bought a 34% stake in Casa dos Ventos for more than R\$3 billion in a joint venture that intends to jointly develop, build, and operate the 6.2 GW portfolio. Besides positioning Total in renewables, the acquisition brings capital and credit capacity to the partnership. As for Casa dos Ventos, the association with the oil company will allow the expansion of its generation arm and its strategy of supplying energy to large customers in the free market.

The Portuguese company Galp had been operating in Brazil only in oil and gas, focusing on the pre-salt, but recently unveiled projects totaling 4.8 GW in renewable energy and may invest \$5 billion over the next 10 to 15 years.

Galp's power business has been in place in Brazil for less than a year, but the strategy includes being present in the free market dealing with final consumers, said Paulo Tarso Araújo, the company's head of trading in Brazil.

"We are setting up a team and operating in the market for large and medium consumers, and getting ready for the next step, which is the opening for smaller consumers. This will be more of a retail business. The most agile traders have already started to go digital," he said.

Effectively pursuing this consumer is what will define who will survive. The consulting firm Thymos Energia estimates that companies will have to invest more than R\$6.5 billion to attract clients.

2W Energia has R\$100 million to finance its strategy and sell power from two wind farms under construction. In addition, it closed an important contract with phone carrier Oi to sell migration solutions for the free market.

As for banks, the portfolio of potential consumers in theory can be equivalent to the portfolio of clients, since retail is part of the institutions' day-to-day routine.

Itaú BBA has had a trading company since 2020, joining Santander and BTG Pactual, which have been operating in the sector for longer and have already been trying to bring SMEs to the free market. They already have a strong presence in the sector, whether in project finance, structuring, or banking, and the trading business will complete their portfolio.

"It makes perfect sense to talk to the same client that is already part of the bank's universe, who has a payroll, a credit card, an investment, and who can also count on a simple, efficient, and economical product to buy energy," said Artur Hannud, the partner in charge of the commercial team of BTG Pactual's energy desk.

The senior executive of Santander's energy desk, Rafael Thomaz, adds that this type of consumer seeks convenience. Today they market about 1.5 average gigawatts and are structuring how to grow in retail.

"The DNA of the bank is in customer service. We started in 2019 and are in a phase of expansion of the business with the retail market. The bank will position itself, creating a structure that serves these smaller customers," said Mr. Thomaz.

Even traditional trading companies are changing and no longer want to do only the operations of buying and selling power, offering services to consumers and generation companies as well. A pioneer in this sector, Tradener is expanding renewable services to sell in the free market. Comer, on the other hand, brought Perfin as a partner of the group in 2021 and incorporated solar generation assets to its portfolio.

Raízen, Cosan's fuel and bioenergy company, is pursuing a strategy of diversification focusing on energy transition, and has been achieving results through its subsidiary WX Energia.

After the corporate reorganization of the assets of the Votorantim group and the Canadian fund CPP Investments, Auren Energia established a goal of doubling the number of clients and reaching 1,000 clients within a year. The strategy ranges from power management for new smaller clients, digitalization of marketing, and even low-voltage clients.

Source: Valor International
<https://valorinternational.globo.com/>

11/15/2022

U.S. UNVEILS INVESTMENT IN NICKEL, COBALT IN BRAZIL

Announcement is part of White House's strategy to reduce dependence on value chains dominated by China

U.S. President Joe Biden unveiled Tuesday that the country will make a new investment of \$30 million in the mining company TechMet for processing strategic minerals nickel and cobalt in Brazil. The move is part of the White House's strategy to reduce dependence on value chains dominated by China.

Mr. Biden also announced several other investments in Indonesia, India, and Honduras under the Partnership for Global Infrastructure and Investment (PGII) program, an initiative by which the G7, which brings together the largest industrialized economies, wants to counter China's Belt and Road initiative.

On the sidelines of the G20 summit in Bali (Indonesia), President Biden together with European Commission President Ursula von der Leyen, Indonesian President Widodo, leaders and ministers from Argentina, France,

Canada, India, Japan, Korea, Senegal, and the United Kingdom sought to highlight the plan to “finance transformative infrastructure.”

As for Brazil, the U.S. president said that the U.S. International Development Finance Corporation (DFC), building on previous support, will invest \$30 million of equity in TechMet Limited for the development of “a critical minerals mining platform of nickel and cobalt in Brazil, bolstering supply chain resilience for the renewable energy transition.”

According to a statement from the White House, TechMet’s Brazilian mine produces sustainably sourced nickel through an extraction process that is less water- and carbon-intensive than traditional methods. “This nickel is estimated to be near the lowest quartile of carbon intensity for global nickel production,” the White House said. Nickel is important for the electric car industry.

London-based TechMet was founded in 2017 by Brian Menell, a South African with mining experience in Africa, to invest in metals needed for clean energy technologies and battery recycling, according to Financial Times. Admiral Mike Mullen, a former U.S. Joint Chiefs of Staff chairman, is on its advisory board.

TechMet’s mine is in Piauí. Critical minerals such as rare earths, lithium, cobalt, and niobium are essential to many modern technologies and to national and economic security. They are found in products from computers to home appliances. And they are key inputs in clean energy technologies such as batteries, electric vehicles, wind turbines, and solar panels.

A study by the European Union points to Brazil as the world’s largest producer of niobium, with 92% of the total. The product is used for high-technology applications, including capacitors and supercomputers. In addition, the country produces 13% of the world’s bauxite, for the production of aluminum; 8% of natural graphite, used for batteries and material for steel production; and 9% of the world’s tantalum, which is used for superalloys and compensators for electronic devices.

During the Trump administration, the United States defined a list of 35 ores considered critical to economic and national security. This year, the Biden administration has launched actions to increase U.S. production. The U.S. estimates that global demand for these critical minerals will skyrocket by up to 600% in the coming decades, and for minerals such as lithium and graphite used in electric vehicle batteries, demand will increase even more – by about 4,000%.

The United States has signaled to Brazil interest in having preferential access to the Brazilian production of critical ores, amid growing rivalry with China and the quest to reduce dependence on strategic commodities.

This year, Brazilian representatives, in meetings held in Washington in August, responded that the Americans are welcome, including to make a difference in investments in this sector, but that Brazil did not intend to privilege partners.

In Bali, the president of the European Commission noted that the U.S. initiative will allow countries to join forces to meet the growing demand for renewable energy. The community bloc has its Global Gateway Strategy, a strategy designed to promote sustainable projects, with €300 billion in investments in third countries in the coming years.

Source: Valor International
<https://valorinternational.globo.com/>

11/16/2022

ROAD AUCTION WAVE LIKELY TO CONTINUE IN 2023 ***Companies does not expect drastic changes, but highlight challenges***

The toll road industry foresees that the wave of concessions will continue after 2023 with the newly elected governments — both federal and state. In the view of companies and specialists, the challenges will be different: the first one is to attract new investors, in order to execute the huge volume of projects — the initiatives being

structured across the country add up to at least R\$90 billion. Another obstacle will be resolving the several still open regulatory liabilities.

“The concessions policy is the least of our concerns. We have the prospect of continuity not only of the portfolio but also of the regulatory improvements implemented,” said Marco Aurélio Barcelos, head of the Brazilian Association of Highway Concessionaires.

Despite the uncertainties surrounding President-elect Luiz Inácio Lula da Silva’s picks for the infrastructure sector, private-sector companies believe that the highway segment will hardly face drastic changes since it is more consolidated.

Historically, the projects made during the Workers’ Party administrations gave priority to the reduction of fares, so there could be a change in this aspect, said Lucas Sant’Anna, a partner at Machado Meyer.

On the other hand, there is a view that the lessons learned will be incorporated. In addition, governments, in general, will have to make an effort to draw interested parties, given the proliferation of projects around the country. In this context, analysts say that concessions with structural problems or regulatory risks will struggle.

“There should be intense competition between federal and state assets,” said Claudio Frischtak, a partner at the consulting firm Inter.B.

At the federal level, factors such as the improvement in environmental policy and relations with countries like China and those of the European Union are likely to have a great positive weight in attracting new investors, according to Mr. Frischtak. On the other hand, it will be important to control macroeconomic turbulence. Besides, joining the Organization for Economic Cooperation and Development would be a great incentive, he said.

As far as the states are concerned, Mr. Frischtak evaluates that there are two essential factors: the strengthening of regulatory security and the formation of a broad concessions program. “The company will not enter a region to operate a single asset. It will seek a logic of economy of scale.”

The attraction of new players to the highway market last year has been a concern. Some newcomers, however, have already emerged in auctions, such as the Italian INC, Monte Rodovias, the consortium formed by Equipav and Perfin, and some associations between medium-sized construction companies. In addition, analysts say there are several other groups — including financial, foreign, and companies from other segments — mulling over entering the Brazilian market.

Besides the auctions, the next governments will have to face another challenge – regulatory liabilities.

For Marcos Ganut, a partner at Alvarez e Marsal, a source of concern is the problematic concessions started in the Rousseff administration, which reach the end of one more administration without a solution.

The path of friendly devolution — which has already many cases of adhesions — is the target of doubts. Changes in the rules previously agreed upon may generate even more insecurity in the model, according to him. In addition, the pioneering case of the sale of Odebrecht’s Rota do Oeste to the Mato Grosso government could open a new chapter in the discussion, says Mr. Ganut. “Today there is no signaling [from Lula’s team] on the subject, but it is a point of attention.”

Besides the older problems, there are all the regulatory liabilities left by the pandemic, points out Mr. Barcelos.

“The current federal government was right to give a strong response to the fall in demand during the crisis. Now, in a second moment, there are all the effects of Covid on the price of inputs. If this issue is not resolved in this administration, the next one will have to answer the questions.”

In the São Paulo government, Mr. Barcelos notes that the pending issues are more extensive. “There were important advances in this government, which solved old problems. Now, what remains are all the pandemic issues. It is necessary to start discussions about Covid. In the federal agency, rebalances for the drop in demand are already being implemented, but they have not even begun to be discussed in São Paulo. It’s time to have an answer, both for the demand issue and for the inflation of inputs,” he said.

Source: Valor International
<https://valorinternational.globo.com/>

11/17/2022

BNDES, PETROBRAS EARMARK R\$44M FOR MANGROVES
Matchfunding was launched at COP26 last year and is expected to raise R\$686m

Brazilian development bank BNDES and Petrobras announce on Thursday, at COP27, in Egypt, the first call for proposals of the Floresta Viva (Forest Alive) program, a collective financing program for the restoration of Brazilian forests and biomes. The initial selection, of R\$44.4 million, will invest in up to nine projects in the area of mangrove and sandbanks restoration on the coast of the country.

The match funding led by the BNDES was launched at COP26 last year and is expected to raise R\$686.27 million through the adhesion of 15 companies and the bank's own contribution of R\$250 million. Each company participated with a slice and only Petrobras, the main partner, committed to injecting R\$50 million over five years. Besides the oil company, mining company Vale and transnational companies such as Heineken and Nestlé, whose adhesion was announced at COP27, are also participating, said Bruno Aranha, the bank's head of environment credit.

The project's first call for proposals is aimed at non-profit civil associations, private foundations, and cooperatives. In this first phase, the proposals must contemplate the restoration of at least 200 hectares of area, a total of 1,800 hectares of mangroves and sandbanks located in the three macro-regions defined in the National Action Plan for the Conservation of Threatened Species and Socio-Economic Importance of the Mangrove Ecosystem (PAN Mangrove), prepared by the Chico Mendes Institute for Biodiversity Conservation (ICMBio). They are the so-called North Coast, as well as the area from the Northeast to Espírito Santo and the South and Southeast.

The amount of almost R\$50 million will be divided equally between BNDES and Petrobras. According to the social responsibility management of the oil company, the contracts are expected to be signed in the first quarter of next year. Those interested have until January 31 to submit proposals. Institutions that have been legally constituted for at least two years and have proven experience in executing ecological restoration projects are eligible to participate.

"The projects can be certified for the emission of carbon credits and the intention is that they will be distributed among the partners in proportion to their donations. In this sense, the fund allows a great laboratory for national and international companies about the certification process of projects for carbon credit emission", explains Mr. Aranha.

According to the general manager for social responsibility at Petrobras, Rafaela Guedes, it was in this context that the commitment between the oil company and the development bank was made. She highlights the importance of mangroves, a transitional ecosystem between the terrestrial and marine environments, with great potential for carbon storage. The vegetation — which is also a source of income for local communities — suffers from intense degradation due to the intense economic and real estate exploitation of the Brazilian coast.

To select the projects and monitor the application of resources, Petrobras and the BNDES selected the Brazilian Fund for Biodiversity (Funbio) as the professional manager of the project through a public call concluded in April. The contract is for seven years, a term that can be extended with new partners are added.

Source: Valor International
<https://valorinternational.globo.com/>

11/18/2022

WHATSAPP STARTS SHOP SEARCH, PURCHASE ON A SINGLE CHAT IN BRAZIL
Service will be expanded this Friday to all over the country, the first one to receive the feature in the world

WhatsApp, Meta's messaging app, has started to offer a search tool for nearby businesses on the platform in Brazil. Soon, the company will also launch in-app purchases.

The two new features were unveiled Thursday by Mark Zuckerberg, CEO of the parent company of Facebook, in a remote video participation at the company's event in São Paulo.

"This is one of the only countries where I've heard of people opening bank accounts, buying cars and ordering dinner — all on WhatsApp," Mr. Zuckerberg said in a recorded video shown during the WhatsApp Business Summit event. "And while millions of businesses in Brazil use it to chat, we haven't made it easy to discover businesses or buy from them, so people end up having to use work-arounds."

The new Business Guide feature started being tested last year in the city of São Paulo and, starting this Friday, will be expanded to all over the country, the first one to receive the feature in the world. "Starting today [Thursday], people will be able to search for a brand or small business directly on WhatsApp, either by browsing a list of categories or by typing in a name," Meta's founder said.

WhatsApp will also soon launch payments for in-app purchases in the country. Testing is in the final stages with payment partners Cielo, Fiserv, Getnet, Mercado Pago, Rede, Mastercard and Visa.

"If you run a business in Brazil, this means that people will be able to find you, contact you, and buy from you, all in one WhatsApp chat. We are working to bring this experience to more countries in the coming months as well," Mr. Zuckerberg said. "This is the next step for business messaging, and I look forward to hearing what opportunities this unlocks for all of you," he added.

On stage at the event, the head of WhatsApp Latin America, Guilherme Horn, tested the first payment for the purchase of a keychain through WhatsApp. According to the executive, these and other partners have already performed the technical integration necessary for the service to work.

The business version of WhatsApp was released in 2018. Currently, the platform makes 5 million business contacts per day through WhatsApp in Brazil, Mr. Horn told reporters after the event.

Asked about possible changes in the launch schedule due to the global layoffs announced a week ago by the company, the WhatsApp executive said there were no changes or delays.

Mr. Horn said that the most critical part of the payments offering, which involves the technology integration with WhatsApp partners, is solved. He did not give a specific date for the start of payments within the app.

On the opening of a new revenue generation channel to balance losses reported by Meta in the third quarter, Mr. Horn said that business messaging is one of Meta's strategic pillars today.

He reported that the launch of in-app purchases comes from a process of maturing the platform. "The company understands that we are at a level of maturity and use of the app that allows this to become a source of revenue."

In addition to contracts with payment platforms, the stores will pay a fee to WhatsApp for the service in the application, but the executive did not inform the percentage to be charged. "The search service is free," he said.

"Globally, 71% of people say they want to communicate with companies via messaging in the same way they communicate with friends and family," Mr. Horn pointed out, citing an April study by consultancy Kantar Ibope. "In Brazil, 60% of the 50 most valuable brands in the country, present in the Kantar BrandZ 2021 ranking, are already on WhatsApp," he added.

According to the company, ads generated by clicks on websites that lead to companies' business profiles on WhatsApp, the so-called "Click-to-WhatsApp," grew more than 80% in the third quarter, compared to the same period in 2021, generating revenue of \$1.5 billion.

WhatsApp has 2.4 billion active users worldwide and is used by 96.4% of Brazilians connected to the internet, aged 16 to 64, according to data from digital media consultancy Hootsuite.

The business version of WhatsApp was launched in 2018. This year, 85% of Brazilians said they are willing to communicate with businesses via WhatsApp and 75% to make purchases via the app, according to a Kantar study commissioned by Meta. Also according to the company, 60% of major Brazilian brands interact through the app.

Revenue generation through WhatsApp is a way to balance losses with advertising sales on Meta's platforms, including Facebook and Instagram.

A week ago, Mr. Zuckerberg announced a global restructuring involving the cut of 11,000 employees, equivalent to 13% of the company's workforce. According to the results released at the end of October, the company had 87,314 employees worldwide.

The cuts will affect all areas and geographic regions where the company operates. Valor found out that the cuts have already affected employees in Brazil.

The Brazilian subsidiary will also return the floors it has occupied since 2012 in Infinity Tower, a building located in the district of Itaim Bibi, in the southern zone of São Paulo, sources close to Valor said last week. According to Meta, the decision is not linked to the cuts, but to a reorganization announced in October.

Along with the announcement of the layoffs, Meta revised estimates for 2023, reducing projections for expenses – to a range between \$94 billion and \$100 billion from a range between \$96 billion and \$101 billion – and for investments, to a range between \$34 billion and \$37 billion from a range between \$34 billion and \$39 billion.

Meta does not disclose revenue for WhatsApp alone, but in conjunction with Facebook, Instagram, Messenger, and other services, which the company calls its family of apps (FoA). In the third quarter, the division's revenue reached \$27.4 billion, down 3.5 percent from a year earlier.

The company's total revenue in the third quarter amounted to \$27.7 billion, 4.5% lower than the result presented a year earlier. The net income of \$4.4 billion meant a 52% drop in the same period.

Source: Valor International
<https://valorinternational.globo.com/>

11/21/2022

INFRASTRUCTURE CONCESSIONS TO DRAW R\$173BN BY 2027

Abdib indicates an increase in investment in 2022, but the volume falls far short of what is needed

The infrastructure sector could generate R\$173.1 billion in new private-sector investments by 2027. Projects auctioned since 2019 account for R\$96.2 billion of that. The remaining R\$76.9 billion would come from auctions to be held in the coming years, according to data compiled by the Brazilian Association of Infrastructure and Base Industries (Abdib) in an annual publication that includes all federal, state, and major city projects in the country.

Despite the substantial volume, the amount is still far short of what is needed to reduce Brazil's logistical hurdles. The association calculates that it would be necessary to invest R\$374 billion per year in infrastructure over the next decade, including public and private-sector funds.

The auctions held in the last four years have already had a positive impact. By 2022, there should be a 10% annual increase in investments in the sector, to R\$163 billion, considering public and private-sector disbursements, compared with R\$148 billion in 2021. However, the gap between the construction works required and those effectively carried out will continue to be wide, at R\$211 billion this year.

Even with the perspective of new private-sector investments in the next years, Abdib's projections indicate that the total amount will not even reach the peak seen in 2014, of R\$207.5 billion (figure adjusted to 2021 prices).

Brazil must increase public investment substantially for numbers to recover, said Abdib's head Venilton Tadini.

“The concessions program will remain in place, both the federal ones and those put in place by states. This is irreversible. However, the significant increase in private-sector investment is not enough to compensate for the big drop we have seen in public investment. There is a limit to make cuts in a budget,” said Mr. Tadini.

For him, the transportation and logistics sector – roads, railroads, ports, airports, and urban mobility – is likely to be the main focus of the next administrations.

First, because it is still largely under the responsibility of governments. “Segments such as power and telecommunications are already in the hands of private-sector groups. But in transportation and logistics, there are limitations for that to happen, due to scale and returns, which are not always attractive,” said Mr. Tadini.

In addition, this is the segment with the biggest investment gap in the country. In 2021, R\$30.1 billion were allocated to the sector. Abdib calculates that the industry needs R\$196.2 billion of construction works per year.

The volume of investments is expected to see a great leap in the coming years given the new projects signed recently and those expected to be auctioned in the short term. Abdib estimates that this amount will reach R\$47.6 billion in 2023 and R\$60.3 billion in 2024. Still, however, the gap will persist.

“We have improved a lot with the advance of private-sector participation, but we will not solve the logistical hurdles without public funds,” the association said.

Abdib advocates the revision of the spending cap, the rule that limits growth in public spending to the previous year’s inflation, and its replacement by a fiscal rule that allows the resumption of public investments, plus reforms to reduce the government’s current expenses. “Brazil has made, over the last few years, the worst fiscal adjustment possible, because it is compromising its physical capital,” he said.

Furthermore, Roberto Guimarães, Abdib’s director of planning and economy, said it is possible to use public funds to draw private capital through public-private partnerships as well. “When the federal government puts R\$10 billion into a project in which the private sector will invest another R\$10 billion, there is a multiplier effect.”

As for infrastructure auctions, which have advanced substantially in recent years, Mr. Tadini sees no risk of discontinuity.

Altogether, considering initiatives of the federal government, the states and the main cities of the country, Abdib mapped 432 projects, which would total R\$543.5 billion in investments.

In a shorter-term scenario, until 2027, the association identified a prospect of investments of R\$173.1 billion, considering contracts auctioned since 2019 (whose initial works are underway) and those scheduled for the coming years. The account includes the transport and logistics, sanitation, and administrative and social infrastructure sectors.

In this calculation, the highway sector is the one likely to generate more construction works between 2023 and 2027, followed by railroads and basic sanitation.

The results of the runoff vote were well received by the infrastructure sector. According to a survey conducted by Abdib and EY right after the conclusion of the election (between October 31 and November 9), there was an improvement in the market’s perception regarding future concessions, said Mr. Guimarães.

Source: Valor International
<https://valorinternational.globo.com/>

11/23/2022

BRAZIL BECOMES SYLVAMO’S EXPORT PLATFORM

Country, which accounts for 40% of results and has the company’s best margin, has consolidated as a gate to mature markets

Sylvamo, an independent company since the spin-off of the printing and writing paper assets of International Paper (IP) worldwide, found a new strength in the Brazilian operation a year after listing its shares on the New York Stock Exchange (NYSE).

Brazil, which accounts for 40% of results and has the company's best margin, has consolidated as a platform for mature markets with a developed paper industry, including the United States and Europe, thanks to the competitiveness of the papers produced in the local mills.

The competitive advantage starts with eucalyptus forests, which are more productive and have shorter cycle, and is sustained with the integrated production of pulp and paper, said Rodrigo Davoli, Sylvamo's CEO in Brazil and vice-president for Latin America.

"Brazil has great relevance in the business and remains extremely strategic," said the executive. In the third quarter, net sales in Latin America, served by the Mogi Guaçu (São Paulo), Luiz Antônio (São Paulo), and Três Lagoas (Mato Grosso do Sul) mills – the only one that does not have integrated pulp production – totaled \$270 million, 35% higher than a year earlier. The adjusted EBITDA margin was 27%, compared with 18% in Europe and 20% in North America.

In 12 months through September, the Brazilian operation reported revenues of more than \$1 billion and produced a little more than 1 million tonnes of paper. About half of this volume was absorbed by the domestic market, while the other half was exported mainly to Latin America, maintaining the mix seen a few years ago.

Under Sylvamo's structure, looking at Brazil as a viable exporter could help make viable an old plan to build a second paper machine in Três Lagoas. Asked about the project, Mr. Davoli said the company is always studying opportunities. "Thinking of Brazil as an export platform, it may be that at some point [the company] has to talk about capacity expansion. Brazil is the place if it has to make an expansion decision."

The Latin American market for printing and writing papers was one of the most affected by the pandemic and demand fell as much as 30% in the first year. There has already been a recovery and Brazil is close to returning to pre-Covid levels. From January to September, according to the Brazilian Industry of Trees (Ibá), the national production fell 4.1% year-over-year, to 1.65 million tonnes. Domestic sales were stable at 1 million tonnes and exports grew 6.1% to 683,000 tonnes.

Sylvamo grew above average in the Brazilian market, according to Mr. Davoli, as well as in the other regions where it is present. "The third quarter was quite similar to the second quarter. We had an important shutdown [for maintenance] in the Mogi Guaçu plant that impacted the results, but the paper business is extremely resilient," he said.

At this moment, the Brazilian operation sees opportunities in cost reduction projects with high return, including marginal expansion of production capacity. There are also possibilities in automation and modernization, in line with the financial discipline strategy. Together, these projects total about \$10 million in investments. The company is the market leader in cut-size paper, with a 53% share. It used to be 50%.

In general, faster inflation has been the main concern of the paper industry and one of the most relevant pressures came from logistics and freight prices, particularly for foreign trade, the executive said. "International logistics was a complex theme and weighed too much on margins. We see signs of improvement, but still not much for Latin America," he said.

On the demand side, there is recovery in different areas, especially education, which accounts for 30% of the consumption of printing and writing paper in Latin America. There is also expansion in other applications, such as e-commerce labels or thermal papers, whose base is offset paper.

Looking ahead to 2023, the company adopts a cautious tone. Although the perception is of solid demand in Brazil, it is unclear how the dynamics outside the country will be. Proper cost management will remain a priority at Sylvamo, whose strategy has been to try to pass on as much costs as possible in this line.

Globally, Sylvamo reported net sales of \$2.7 billion up to September. In October, it concluded the sale of a unit in Russia for \$420 million – the decision to sell was made because of the invasion of Ukraine – and announced the purchase of an uncoated paper mill in Nymolla, Sweden, from Stora Enso, for \$150 million.

Source: Valor International
<https://valorinternational.globo.com/>

11/23/2022

COMMERCIAL ORANGE PRODUCTION IN FLORIDA AT RISK OF ENDING
Specialist says that U.S. industry will have to import fruits very soon

The moment when the U.S. orange juice industry will operate only with imported fruit is near. In 21 years, the production in the state of Florida, which concentrates the largest citrus grove in the country, fell to 28 million from 230 million boxes, according to the U.S. Department of Agriculture (USDA). With the damage caused by the hurricane Ian, the volume may shrink to about 14 million boxes.

“To run a juice plant you need to have a good volume of fruit, otherwise the cost per tonne gets too high. So, the discussion at this moment is whether it is viable to continue producing oranges or import 100% of the raw material”, said Andrés Padilla, industry specialist of Rabobank Brazil to Valor. In his opinion, the situation is irreversible. “When you think that production has already fallen almost 90%, the chance of going to zero is great.”

Mr. Padilla affirms that U.S. farmers made a mistake in their strategy to combat citrus greening, a phytosanitary problem. Unlike Brazilian producers of the citrus belt that spreads over São Paulo and Minas Gerais, who uprooted the infected trees and planted new ones, the U.S. citrus producers tried to control it. “Today, all the plantations in Florida have the disease”, he commented.

In addition to the hurricanes and the greening, Florida’s production has suffered due to the rising cost of land and labor. “Of the four big plants that are left, one or two at the most will run at the next harvest. It’s not worth opening shifts because the losses are for sure,” said the analyst.

The drop in the supply of oranges in the U.S. will open space for a greater volume of exports from Brazil, whose production is recovering after two years of problems caused by La Niña. According to the Rabobank specialist, the country is likely to reach 314 million boxes, a 20% increase. But he considers that, in the short term, the low Brazilian stocks of the beverage will limit the increase in shipments.

But the juice demand of today, and the future, is a big question mark in the U.S. and in the world. According to Mr. Padilla, consumption has declined dramatically over the past decade. From the 2016/2017 harvest to the current cycle of 2022/23 the projection is for a 13% global retreat, to 1.56 million tonnes of the beverage equivalent to concentrated and frozen product (FCOJ).

“Not so long ago, a negative image of the product was created – due to the calories – from data that were not the most correct from the scientific point of view. Several nutritionists started to tell people to opt for the consumption of the fruit in natura”, he explained.

To the Rabobank expert, the industry – including the Brazilian industry – also failed to advance in emerging markets, such as China: “The Chinese demand grew a little, but not enough to counteract the fall in consumption in Europe, the biggest import market.”

In the medium term, the orange high may sustain the orange juice contracts in the New York Stock Exchange. However, at a time of global economic recession, the high price may accelerate the reduction in consumption.

Source: Valor International
<https://valorinternational.globo.com/>

11/25/2022

BORGWARNER TO MAKE BATTERY SYSTEMS FOR ELECTRIC CARS IN SÃO PAULO
Sets will be completed in Piracicaba with batteries imported from Germany

Keeping up with the electrification of vehicles without losing money or going out of business has become one of the biggest challenges for many auto parts makers. The large ones have been able to adapt by buying up other companies. At the beginning of the year, the U.S.-based BorgWarner, a well-known player in components for combustion engines, acquired the German battery maker Akasol, which already had three plants – two in Germany and one in the United States. The fourth one – the first since the acquisition – will be inaugurated in the first quarter of 2023 in Piracicaba, São Paulo, and already has a client: the Brazilian subsidiary of Mercedes-Benz.

After posting a global turnover of \$14.8 billion in 2021, BorgWarner has set the goal of generating 45% of its revenues from electrification systems by 2030, said Marcelo Rezende, the company's managing director for batteries in Brazil. This year alone, the company won \$2.9 billion in new businesses in the electric vehicles market, compared with a target of \$2.5 billion originally projected to be reached by 2025, he said.

Mr. Rezende is a trained mechanical engineer who came from Delphi, a company acquired by BorgWarner two years ago. The deal included Delphi's plant in Piracicaba, the same that has just been revamped to receive Akasol's new line, a brand that will remain in the market. The battery systems will be produced in a previously rented facility.

The systems will be made from imported components, which will be complemented with items produced in Piracicaba. The lithium-ion batteries will arrive from Germany through the Port of Santos. It is a large component (1.8 x 0.7 meters) that weighs 500 kilos. The management and charging modules will be added in Brazil, as well as one that interconnects the others. Each bus will have, on average, four sets of batteries, distributed on the roof and rear of the vehicle.

According to Mr. Rezende, the local sourcing of part of the systems will guarantee the bus buyer access to Finame, a special credit line for commercial vehicles offered by the Brazilian Development Bank (BNDES), which has been adapted to include electric vehicles. Mercedes's bus also marks the German company's debut in electromobility in Brazil – the automaker is the first customer of BorgWarner's new operation as well.

Mr. Rezende believes, however, in the expansion of electrification not only in the city bus segment, but also in the truck and delivery van segments. He says the company has been talking to other automakers. "Brazil is the fourth-largest commercial vehicle market in the world and the demand for electric vehicles is expected to grow 400% in the next five years," he said.

Although at the beginning of the operation the pace will be slower, the new plant will have the capacity to produce 4,000 battery systems per year. According to Mr. Rezende, when it reaches this volume, the amount of power produced will be enough to power 200 homes for a year.

BorgWarner's management team does not reveal data such as investment in the new plant, number of employees or sales in Brazil, where the company has been operating for almost 50 years. But the company cites sales growth percentages in several divisions. According to BorgWarner, in the year to date, the Brazilian plants have produced 13.4% more than in 2021, including supply to automakers, aftermarket, and exports.

The production of starter motors and alternators to serve the automakers in Brazil grew 110%. The increased demand for cars with turbocharged engines is also benefiting BorgWarner, which is expanding its production of turbochargers in Itatiba, São Paulo.

According to the company, turbochargers exclusively for bi-fuel engines (which run both on gasoline and ethanol) will be in 30% of the light vehicles sold in the country this year. This share is expected to increase to 37% in 2023, 45% in 2025, and 54% in 2030.

This explains why, despite the strategy for electrification systems, the company is not neglecting the combustion vehicle market. "We believe Brazil is still going to benefit greatly from the technological path of its biofuels in the

light vehicle segment,” said Wilson Lentini, BorgWarner’s general manager for emissions, thermal, and turbo systems in Brazil.

The advance of electrification in other parts of the world is also beginning to open up opportunities for plants in Brazil, which are taking over the supply of components that are no longer being produced in regions that are more advanced in electrification, such as Europe.

According to Mr. Rezende, the company will start next year exporting these products to Argentina, Uzbekistan, and South Korea, meeting global needs of a customer.

In 2022, 4% of BorgWarner’s sales of starter motors and alternators were injected in expanding the capacity of the production lines for these components at the Brusque plant, in Santa Catarina. The plan is for these investments to reach the equivalent of 6.5% of sales in 2023 and to set up a third production shift at the plant. Besides Brusque, the group’s other plant, in Itatiba, São Paulo, also operates in three shifts.

For Mr. Rezende, in the age of electrification, local production continues to be a priority whenever possible. “The decision for the fourth battery system factory in Brazil was a strategic one, so the company will be able to serve customers in the region.”

Source: Valor International
<https://valorinternational.globo.com/>

11/29/2022

BRAZIL INVESTS ON EXPORTS OF DAIRY PRODUCTS TO CHINA

Companies like CCGL want to take advantage of window to sell products to Asia’s largest economy

One year after the first dairy products export to China, the Rio Grande do Sul-based cooperative CCGL received this month a visit from its Asian commercial partners. Due to market conditions — the price of the Brazilian product is not competitive now — new deals have not yet been closed. But, with an eye on the future, the contact has been constant in 2022.

It is understandable. Even though China is on the other side of the globe, and close to New Zealand — the largest exporter of dairy products in the world — the country may increase its imports of dairy products by 80% between 2021 and 2031, when purchases may reach 35.8 million tonnes in milk equivalent. The data are from the Chinese government and were gathered by InvestSP, an agency that belongs to the São Paulo government and promotes business between the two countries.

Brazilian exporters believe that Latin American countries can benefit from business windows in this decade as the Chinese demand is higher, since there is a limit for the New Zealanders to meet it.

According to José Mário Antunes, COO of InvestSP, the increase in dairy products consumption in China results not only from population growth, but also from an adjustment in nutritional recommendations that has been made by Beijing.

As this is a difficult market to conquer because it requires investment and patience, CCGL is committed right now. “When the market changed this year [prices in Brazil went up], we even cancelled a shipment of twenty containers to Brazil. We did this by mutual agreement, to maintain the good relationship,” said Caio Vianna, president of CCGL.

The Brazilian cooperative sent two “small” lots of powdered milk to the Chinese market a year ago. Volume and value were not informed. The milk was used by processors that manufacture dairy products, such as cheese, yogurt, and even sausage.

According to Mr. Vianna, the buyers were not yet familiar with the Brazilian product. “They really liked it,” he said. “But selling to China requires not just thinking about immediate profit.” CCGL knows it will have to invest money, time, and sometimes “even lose something.” “It takes work, but to open a market you need to invest.”

In the view of the exporters, it will be possible for Brazil and its neighbors, Argentina and Uruguay — two milk suppliers already more consolidated in the international market — to gain space in China over the course of the decade, because the rise in Chinese consumption will not be fully supplied by New Zealand.

Mr. Vianna believes that New Zealand has a limit to expand its supply, since the country depends on pasture and is not a producer of grains, used in livestock feed. Observing these features, he says, it will be difficult for farms to increase volumes by “30% or even twofold” to meet a demand much higher than the current one.

However, after New Zealand, the largest suppliers of dairy products to China are the European Union and Australia, important global suppliers of the sector that should also fight for space. The opportunities for Brazilians will happen in “windows” as the Asian demand — adding Vietnam and Indonesia — is bigger, raising international prices.

The ability to take advantage of them will depend on changes brought about by some fronts of efforts, whether individual – as has been done by CCGL –, sectorial, and governmental.

Brazil needs to increase the productive efficiency in milk – since the volumes of the farms practically supply the domestic market –, expand the investment in marketing and relationship, and strive to reduce international trade rates. The sectorial transformation that has been taking place in recent years in Brazil, with the use of technology, may help to increase the efficiency of farms.

However, Brazilian dairy products pay a 10% internationalization tax in China, as do European and U.S. products. Exporters from Australia and New Zealand have advantages in this chapter. New Zealand products, for example, are exempt from paying this tax for 300,000 tonnes, and as of 2024 the quota will be revoked. The dairy products from New Zealand will enter China without the charge. This type of barrier will only be overcome through bilateral agreements.

As for the cost of exports, due to the distance from Brazil, it is not a problem. “Negotiating with the Chinese showed that, differently from what I thought, freight is not a factor that affects our competitiveness,” says the executive.

Considering the scenario of challenges, maybe milk will be the last, among all the agriculture products, to gain exportation status, says Mr. Vianna. Despite that, he believes it is possible not only to become an exporter to China, but also a supplier. “A decade ago, Brazil didn’t export a kilo of beef to the Chinese. Today, that country is the biggest destination for meatpackers,” he says.

Meat and milk are segments with distinct features, but there is a behavioral factor in China that draws similar possibilities in the view of the president of CCGL. He recalled that China has at least 200 million people with high purchasing power in urban areas. It is the equivalent to the size of the Brazilian population among a total of 1.5 billion Chinese.

“There is a Brazil inside China with purchasing power to consume meat and dairy products. If these people taste a cheese made from cow’s milk, there is no way they will go back to tofu,” he said.

Source: Valor International
<https://valorinternational.globo.com/>

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GERDAU TARGETS RENEWABLES TO MOVE FORWARD WITH DECARBONIZATION
Company will invest R\$1.5bn in renewable energy to become more competitive in steel sector

The announcement that Gerdau has entered into a partnership with asset-management Newave Capital (NW Capital) to purchase a 33.33% stake in Newave Energia puts the steelmaker at a new level in decarbonizing production, in addition to diversifying its business and making it more competitive in the steel sector.

The plan aims to develop new large-scale (greenfield) power generation projects with a capacity of approximately 2.5 GW, exclusively from solar or wind sources. Part of the production also aims to supply Gerdau's industrial units in Brazil with renewable energy, as part of its commitment to reduce its greenhouse gas emissions, which are quite intense in electro-intensive sectors such as metallurgy.

Through Gerdau Next the company will invest up to R\$1.5 billion of equity capital in Newave Energia, divided into two stages. In the first phase, the company will invest R\$500 million in 2023, and the second phase will include an investment of up to R\$1 billion, conditioned to the achievement of performance goals.

Juliano Prado, vice president of Gerdau and leader of Gerdau Next, told Valor that the business is based on the pillar of sustainability for the reduction of carbon emissions by 10% within ten years, seeking to reach 60% of energy needs through self-production. Today it is 25%.

In parallel, the company aims to reduce its greenhouse gas emissions (CO₂e) of scopes 1 and 2 of its inventory, to 0.83 tonnes of CO₂ per tonne of steel in 2031, a value approximately 50% lower than the global average of the steel industry.

"Today we have a designed and prospected pipeline of six greenfield energy parks. When these parks come into operation, or Newave acquires a new park, the plan is that 30% of the energy produced will go to our self-production. We are talking about Newave reaching close to 2.5 GW both in solar and wind", he said.

The free energy market is a segment that the company is keeping an eye on to expand its business. Brazil currently has about 10,700 free consumers, but the government's proposal that all consumers served at high voltage can opt to buy electricity from any supplier as of January 1, 2024, opens space for new competitors.

"The other 70% of the energy produced will be commercialized in the free market. We also want to have a leading role in having more accessible prices for businesses that want to buy from Newave Energia," said Mr. Prado.

In the energy transition context, partnerships such as this one have been taking place more frequently in the electric sector, in which oil, metallurgy, and steel companies, for example, associate with other companies to have some competitive differential.

In Gerdau's case, decreasing the cost of steel was one of the differentials to closing the deal. Besides being the most competitive in the country with a prominent place in the expansion of the system, subsidized energy sources such as solar and wind have contracting benefits to other conventional sources.

"This R\$1.5 billion foreseen in our business plan for investments in Newave is equity capital. Another R\$3 billion will come from the asset-management firm Newave Capital and XP, meaning we will also have third-party capital", he states.

New projects usually have a higher risk, but with higher gains. And because it is strategic information, Mr. Prado does not reveal how much the investments will reduce production costs, but he stresses that the project gains are above the cost of capital with high double digits.

He sees the governance and the team as a differential advantage, with professionals from large energy companies, such as Siemens Gamesa and Echoenergia, among others.

This is not the only investment in renewables and the executive guarantees that it will not be the last. There are others, besides the production mix with scrap and charcoal that supply the carbonization plants in the pig iron and steel chain.

Source: Valor International
<https://valorinternational.globo.com/>